

# Town of Milton

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## **TOWN MANAGER REPORT SEPTEMBER 2012**

### Insurance Innovation

Workers Compensation insurance is a significant expense for all employers. An accident can cause a big increase in costs through the “experience rating” assigned to the business. If similar businesses pool their purchases, though, the risk is spread out and rates are less volatile. The Town of Milton participates in a group purchasing program through the Delaware League of Local Governments.

The DeLea Founders Insurance Trust (DFIT) held its fourth annual meeting on September 13<sup>th</sup>. As a result of the “safety culture” promoted through monthly meetings of participating towns, claims in the 2012 fiscal year were minimal. This has resulted in a return of \$160,000 of insurance premiums paid by members. The Board of Directors has voted to retain this premium in a savings account. The interest-bearing account is the first step toward becoming self-insured. (Model illustrated below)

Re-insurer pays catastrophic losses
Group pays ordinary losses From accumulated savings Or assessments made by Board of Directors on All members of the group

A self-insured model requires that most claims be paid from the group’s savings. The only insurance that would be purchased would be for the most catastrophic losses. While there will be some administrative costs, the self-insured model offers significant savings to group participants. This business model has been successfully used by many local government groups over the last decade.

Consultants have advised that an annual premium for all members in a qualifying group should be approximately \$2.5 million and collateral on-hand should be about \$1 million. The DFIT group has about \$2.2 million in combined premiums. Savings in prior years were used to pay an assessment during a year in which there was a catastrophic loss. So, the current savings of \$160,000 is our starting point. The Board of Directors will soon develop a Request for Proposal in which local banks will have an opportunity to be the steward of group assets.

Because the Town of Milton elected to participate in the DFIT group this year, there is no up-front cost. Municipalities that wish to participate in the future may have to pay into the savings account in order to become a DFIT member. Like our choice to participate in the State of Delaware pension program, the choice to join DFIT in 2012 will provide savings and security to your municipal government over the long term. Estimated annual savings for pension costs are \$12,600 per year (non-police salaries, difference between pension contribution rate and 457 plan rates). Workers Compensation insurance in 2013 is estimated at \$30,800. This innovative approach to insurance will help us to keep this expense low and to minimize the risk of large increases, for years to come.

### 2010 Audit Consequences

At the September 10, Town Council meeting, the decision was made to Pre-apply for loans for two different drinking water projects. The Office of Drinking Water had the expectation that this would occur as a result of their Planning Study grant of \$7,415 in June 2012. This expectation was explicitly stated in the contractual terms of the grant. The Pre-Applications have been submitted and will be subject to review in the coming months.

In the interim, the Director of the Office of Drinking Water (ODW) received a copy of the FY 2010 audit performed by the Delaware Office of the Auditor of Accounts. Findings in the report are indicators that the Town of Milton is a credit risk. State Revolving Fund loans from ODW are provided by the US Environmental Protection Agency. The ODW must perform due diligence when considering applicants for the EPA funded loans.

As a consequence of the FY 2010 audit findings, the Director of the Office of Drinking Water sent a letter to the Town of Milton. This letter stated that eligibility for future low-interest loans (and principal forgiveness) will be contingent upon documented improvement upon the deficiencies found in the process and control of Town of Milton finances.

So, regardless of the ODW review of the applications or consensus among the citizens of the Town of Milton, a referendum to borrow money for water system improvements may be delayed by a couple of years. Efforts to address the deficiencies in financial practices are ongoing and will continue until we achieve the standing necessary to qualify for all types of intergovernmental aid.

### Floodplain and Drainage Management

A balance between private property rights and the welfare of a community as a whole is often a source of great debate. The development of properties in a floodplain brings the likelihood of insurance claims that will affect the rates of others. It can also diminish the quality of surface water because impervious surfaces create run-off that carries sediment, nutrients and pollution (such as oil from parked cars).

In 2012 the Delaware Senate passed SB 64. Opposition from Sussex County, in particular, has delayed implementation of provisions favored by the Department of Natural Resources (DNREC). A committee of stake-holders was formed and a survey of floodplain standards in municipalities was created. The Town of Milton details standards for Floodplain management in Section 125 of the Municipal Code. In some cases, the standards desired by DNREC and the Federal Emergency Management Agency (FEMA) are already met. In other cases, our Code may be less than (or simply silent) the desired standard.

Coincidentally, your Town Manager attended training to become a certified administrator of the National Flood Insurance Program at FEMA's Emergency Management Institute in September. This training and engagement with the SB 64 Advisory Committee will enable the Town of Milton to be a full participant in the process.

Land planning and development is one of the last areas in which "home rule" by local governments is respected. Your elected local representatives and Town Council, in particular, are sensitive to property rights and the effect that regulation has on economic development. Updates to Section 125 of the Milton Municipal Code will be thoughtfully considered as the SB 64 Advisory Committee continues its work. The outcome may be years in the making.

### Trash Rates to Increase

A multi-year contract with our trash service provider calls for rate increases. Starting October 1, the rate will be \$60.50 per unit, per quarter.